

This transcript of last night's media and analyst briefing is posted for the information of all shareholders, to ensure they have the same access to the material shared with the media and analysts. The transcript is provided on an errors and omissions excepted basis, which means it may include or omit some parts because the audio is not clear, or the words used may sound similar to others. In some cases, where obvious grammatical mistakes are made by the speaker (for example, 'have' instead of 'has'), these may be corrected simply to aid readability, but nothing of substance has been changed from what was said.

**Transcript –Joint Briefing by Temasek and SMRT
20 July 2016, 7.30pm**

MODERATOR: Good afternoon, ladies and gentlemen, members of the media, analysts and participants who are listening to us via teleconference. Thank you for joining us today for the presentation. On our panel we are pleased to have with us from SMRT, Mr Koh Yong Guan, Chairman, Mr Desmond Kuek, President and Group CEO, and Mr Manfred Seah, the Chief Financial Officer. From Temasek, we have Mr Chia Song Hwee, President; Joint Head, Investment Group; Joint Head, Portfolio Management Group; Joint Head, Singapore, and Ms Juliet Teo, Head, Transportation and Logistics; Senior Managing Director, Portfolio Management Group. Please note that this presentation should be read in conjunction with the Joint Announcement issued on the SGX. I also wish to inform that a transcript of this briefing will be posted on SGXNet at the earliest opportunity so that all investors have the opportunity to read the details shared and answers to questions. For that reason, it is important that you speak clearly when we come to the questions and that you identify yourself by name and organisation. Without further delay, it is now my pleasure to invite our Chairman to address us.

KOH YONG GUAN: Good evening everyone, and thank you for making it to the briefing at such short notice at this time of the day. As you would have seen from our Joint Announcement issued earlier today, SMRT and Belford Investments Pte. Ltd., a fully owned subsidiary of Temasek, have entered into an implementation agreement to effect a Scheme of Arrangement for Temasek to fully acquire all shares in SMRT. Last Friday, the Government announced that LTA and SMRT Trains have agreed to transit the North-South and East-West lines, the Circle Line and the Bukit Panjang Light Rail Transit to the New Rail Financing Framework, or NRFF for short. SMRT welcomes the transition which will bring SMRT's current rail lines into a financing framework that is more sustainable.

We also shared information on the terms and conditions of the new licence structure contained in the announcement made by SMRT on that same day. The full circular and details of an Extraordinary General Meeting, EGM, to be convened for shareholders to approve the asset sale will be despatched in due course.

Over the weekend, SMRT Corporation Limited received an unsolicited offer by our majority shareholder Temasek Holdings (Private) Limited, for the acquisition of the outstanding shares in SMRT that they do not currently own by way of a Scheme of Arrangement under the Companies Act. Given this new development, we've continued our trading halt on the Singapore Exchange which had been in effect since noon of 15 July. The board deliberated extensively over the weekend on the proposal with its financial and legal advisors which namely are Bank of

America Merrill Lynch and Wong Partnership. As a result of this, the board has resolved that the proposal should be put to shareholders to decide on the Scheme. The Scheme will not affect the company's intended transition to the NRFF on 1 October 2016 if the NRFF is approved by shareholders.

Our briefing today will focus on four parts - Desmond from SMRT will start with a summary of the transaction and the timeline. He will then recap the major points and implications of the New Rail Financing Framework, not just for the company but also for our shareholders. Song Hwee from Temasek will present the rationale for this transaction. Finally, Desmond will summarise the financial evaluation of the Scheme Price. Thank you.

DESMOND KUEK: So first let me share some details about the transaction before us. SMRT has entered into an implementation agreement to effect a Scheme of Arrangement. It's not a general offer so let me explain the difference. A Scheme of Arrangement requires, through the process of a Scheme Meeting of shareholders convened by an order of Court, a vote at which a majority of Scheme Shareholders present and voting at the Meeting who hold not less than 75% in value of the Scheme Shares, approve the Scheme. On the basis that it is approved and subject to a further Court approval, all the shares in the company will be acquired by Belford. This is not a case where shareholders tender their shares and Belford, as the acquirer, has to build its shareholding till it reaches the required level of 90%. The reason for this is that Temasek already owns a majority of shares in SMRT. Its intention is not to increase its holding but to delist the company and take it private. To do this,

we need the support of our shareholders.

Temasek is offering shareholders S\$1.68 per share in the Scheme. As the offeror is Belford Investments Pte. Ltd., a wholly owned subsidiary of Temasek, Temasek cannot vote its shares in the Scheme. The SMRT board of directors will appoint an independent financial advisor for the purpose of making a recommendation to our shareholders.

The timeline for this Scheme follows today's Joint Announcement. There will be an application to the High Court to convene a Scheme Meeting for shareholders which will likely occur at the end of August. The Scheme Meeting will likely take place by October 2016. The dates are yet to be determined and will depend on legal and regulatory processes, and then a decision of the High Court. Subject to approval by shareholders and the subsequent approval by the High Court, the Scheme will be effective very after the Meeting.

As you know, last week the Land Transport Authority announced a transition to the New Rail Financing Framework. At the outset, let me say both Temasek and SMRT support the move to the New Rail Financing Framework. It is necessary to move SMRT to a more sustainable model. However, there remains several significant business risks for the company, even under the New Rail Financing Framework.

Firstly, as I had explained during my briefing last Friday, there is no certainty or guarantee that SMRT Trains will earn an EBIT

margin of around 5%. Many of the factors required to do so are outside the control of SMRT. There remains uncertainty over fare increases and ridership, two of the main drivers of the revenue in SMRT Trains division. Historically, actual fares have not increased in accordance with the prescribed fare adjustment formula. Fares will continue to be set by the Public Transport Council and fare levels will continue to be dependent on a myriad of factors that are primarily beyond the control of SMRT and/or which SMRT is unable to project or predict with accuracy. These include, among others, what the Public Transport Council will decide in relation to future fare adjustments and the impact of ridership of new lines in the network.

In addition, the profit cap and collar mechanism, which I explained last Friday, is asymmetrical as the Land Transport Authority will share the excess margin via a tiered structure up to a maximum of 95%. In addition, costs will increase as SMRT has already indicated that it will continue to employ at least 700 additional maintenance head count, or around 20%, over the next three years. This is in addition to the increase of its technical work force by 30% over the last three years. These steps are both necessary and welcomed in order to ensure SMRT continues to meet its service obligations and to enhance the quality and reliability of the rail system. I also want to reiterate that the company intends to use a substantial part of the net proceeds from the LTA's payment under the New Rail Financing Framework to retire its existing debt. There will not be a payment of special dividend to shareholders. Let me hand over to Song Hwee.

CHIA SONG HWEE: Thank you, Chairman, and thank you, Desmond. Let me share some perspectives of Temasek for undertaking this Scheme of Arrangement with SMRT. We believe that even as SMRT transits to NRFF the company will continue to face significant business risks as well as challenges which is really beyond the control of the company. Privatisation will provide SMRT greater flexibility to focus on its primary role of delivering safe and high quality rail service, without the short-term pressure of being a listed company. This enables Temasek to better support SMRT as it retools and reinforce core skill set in operations, maintenance as well as engineering.

This will also allow minority shareholders to monetise their holdings for cash and avoid uncertainties of the business and future environment. Privatisation will remove costs and constrain of being a listed company and allow maximum flexibility to focus on its core activities. Post privatisation, the company can continue to enhance its rail reliability and the long-term sustainability of its operation without needing to worry about the short-term pressure for being a listed company. I just want to reiterate here that Temasek's offer is for cash. With that let me pass it back to Desmond.

DESMOND KUEK: Thank you. So let me refer you to this last slide that we have which talks about the Scheme Price. As mentioned in the transaction summary in an earlier slide, the Scheme Price is S\$1.68 per share, payable in cash if the Scheme is successful. This translates to a total cash consideration of approximately S\$1.1 billion for shares not owned by Temasek. Regardless of the Scheme, shareholders will still be entitled to the final dividend of

2.5 cents per share that was declared for FY2016. The Scheme price of S\$1.68 represents an implied FY2016 PE ratio of 34x to 64x based on the illustrative range of SMRT Trains composite, which means the fare and non-fare, EBIT margins, within the range of 0.9% to 5.9% under the NRFF as disclosed in the sensitivity table under Schedule 4 of the Joint Announcement. For those of you who had listened in on the briefing last Friday, you will remember that this was the sensitivity analysis table that I had shown which showed what happens on an illustration basis, based on changes to the operating costs and revenue structure.

This implied range of PE ratios translates to a premium when compared to relevant historical last 12 months PE ratios of SMRT. For example, this premia over the LTM PE ratio for the period ending 15 July 2016 is approximately 59% to 199%. Similarly, the premia over the average rolling LTM PE ratio over the last 1 year is comparable. This ends my brief and I'll pass it over hand back to the Chairman.

MODERATOR: We will now begin the question and answer session starting with attendees in the room. Again, we wish to remind you to speak loudly and clearly and to identify yourself by your name and your organisation.

JUSTIN CHIAM (MACQUARIE): I'm Justin from Macquarie. I'd just like to know a little bit about the thinking behind the valuation that is derived at S\$1.68 a share. Because looking at the multiples in the illustration it doesn't seem like any developed market operators have ever traded at such premium multiples such premium

multiples. So I would just like to know a bit of the thinking on how that is developed.

CHIA SONG HWEE: We believe that the offer price is a fair price which will allow us to achieve our objective of taking the company private.

JOYCE KOH (BLOOMBERG): Joyce from Bloomberg. Is this a final offer price?

CHIA SONG HWEE: Yes. This is a Scheme arrangement, there will be only one price.

QUEK LEE KIANG (LIANHE ZAOBAO): Hi, I'm Lee Kiang from Lianhe Zaobao. Perhaps you have a more layman perspective – how do you actually explain how the S\$1.68 comes to play. Based on the technical explanation that is in the chart, I don't think any shareholders in the street will be able to actually understand how that number came about.

CHIA SONG HWEE: Maybe I will try and - like I say, this is what we believe a fair price which we hope that will get shareholder support to allow Temasek to privatise SMRT. Now, listed in the press release, there are many matrix including earnings multiple, comparison, the benchmark will allow people to form a view. You can look at the past trading prices, either 30 days, 60 days or 90 days - and how that compares, whether or not there's a premium associated with that. And coincidentally, and it's really coincidentally, it happens to be a little bit above the 52-week high.

SOON WEILUN (BUSINESS TIMES): Soon Weilun from the Business Times.

Just to turn things around, if Temasek were the one to sell its stake of SMRT, would you sell at this price?

CHIA SONG HWEE: Yes, if we were to get an offer for our stake of 54% at S\$1.68 we consider that as fair price and we're prepared to sell our stake. However, it is important to recognise that the intention of us taking SMRT private is to allow the company the flexibility so that it can focus on its primary role of providing safe and reliable rail service. So long as the offer party can have the same type of objective and look at the long-term sustainability of the rail system then yes, we are prepared to sell at that price.

JOAN NG (THE EDGE): I'm Joan from The Edge. As an investment company, you do also have to make returns, so from an investment perspective, what are the attractions of SMRT at this point given the risks that it faces in terms of its earnings?

CHIA SONG HWEE: Yes, of course Temasek is a commercial entity and we do our investment and divestment based on commercial consideration. However, we have to recognise that we are a long-term shareholder, a long-term investor. We do take sustainability of the business, the model, as being key consideration. While I have articulated and Desmond has articulated the challenges in the near to mid-terms, we hope to use this opportunity as a private company, if the shareholder were to support us, to work through all those issues and to position the company better going forward. Now, it doesn't mean that there's no risk, all investment has risk but we came from the commercial angle, not just to purely look at how to let the company focus, but

the commercial consideration is equally important.

MARISSA LEE (STRAITS TIMES): Marissa from the Straits Times. Could you just take me through some of the thinking about why you chose a Scheme of arrangement rather than a general offer? And if the offer is not accepted, would you revise your offer?

JULIET TEO: So I think the answer is quite simple. Because we are already a 54% shareholder, the majority shareholder here. The objective here is, as Desmond highlighted earlier on, is not to increase the stake but really, to privatise and I think from that perspective, the Scheme allows us to do that. It also allows shareholders, removes the uncertainty for shareholders because everybody will just come and vote at that Scheme meeting and therefore it's an all or nothing kind of situation. So I guess your question about does it allow us to [revise the offer] actually, no, because if we fail in the Scheme this time around, technically speaking we will have to wait a year out but we might not have the same view that we need to privatise the company a year out. So I think the opportunity is now.

MARISSA LEE (STRAITS TIMES): I also have a question regarding the PE Ratio. You sort of based it on the EBIT margin for just SMRT trains, if I understand correctly, so how does that change if you take into account the EBITDA for the group, for example you have a lot of revenue for rentals and advertising, so how will that change?

JULIET TEO: I don't think that changes the matrix very much because I think the fact is with the transition to the New Rail Financing

Framework, the component talked about the advertising, rental and all that, the rail part of it is already recomposited with the rail business. So I think it should have been fairly clear in Desmond's release last week what that really means to the impact of the earnings of this company. I think if you look at all the analysts' reports that have come up over the last few weeks, or last few days, I think that has clearly laid out what the possible implications are on the earnings and that, I think, you know, most almost all of them have actually revised the target price 5 to 42% downwards.

CHIA SONG HWEE: I would just like to add that the numbers that you see in the release is worked off the group earnings, not just the rail.

JULIET TEO: It's based off what SMRT has disclosed.

DESMOND KUEK: At our end in SMRT we have deliberated very extensively with Temasek on this price and we believe this to be an acceptable price that we are prepared to take forward through this Scheme of arrangement to our shareholders to support.

MAYUKO TANI (NIKKEI): Mayuko from Nikkei. I was wondering if Temasek in the future, you mentioned the company is in a short to mid-term challenges, so after you go through this period of a lot of difficulties, Temasek, won't you sell the part of it and list it again or are you in the thought that the public transportation business is a very difficult type of business to be publicly listed? The second question I would like to have the comments most from Mr Chia and Mr Koh.

CHIA SONG HWEE: It is perhaps a bit too early for us to speculate what we would do subsequent to the privatisation and then going through all the changes that the company has planned for. It is also right for me to point out that Temasek portfolio includes both privately and publicly listed companies and we are very comfortable with either type of ownership. So Sing Power, for example, we own 100%, Mapletree we own 100%, PSA we own 100%. So we are happy in any shape or form. We just need to meet our business objective and goal.

KOH YONG GUAN: From the viewpoint of the company, the first point to note is that the current financial framework is on the verge of becoming totally unsustainable and that's why for the reasons that we talk about many, many times in the public domain, the mismatch between fares and the history of fare adjustment and the capital, the CaPex expectation that the company have to spend. So in that context that's why we welcome the new NRFF that was announced last week. And if you look at the NRFF the upside risk the upside is kept at 5%. The downside risk continues to be uncertain, as Desmond has enumerated, and going forward we think it's going to be a very challenging business environment that we are in, that we will be in. The nature of a listed company is there will be short-term expectation and it's against this framework that when we received the unsolicited offer last weekend, we decided that we have to spend the whole weekend, consider it thoroughly, we appointed a financial advisor to advise us and a legal advisor to advise us and subject to the advice of an independent financial advisor we will have to appoint - to advise on the terms of the Scheme, the directors of the company viewed the

Scheme favourably, we review it favourably and supportive of the acquisition and we think the Scheme merits to be put forward to the shareholders.

RACHAEL TAN (UBS): Hi, this is Rachael from UBS. I'll like to direct this question to the Temasek management. Given that you've mentioned that there are clear earnings risks from the NRFF for train operators in the medium term, would you consider privatising other publicly listed rail operators?

CHIA SONG HWEE: We have no consideration at this point in time.

TOH TECK MENG (LIANHE ZAOBAO): Teck Meng from Lianhe Zaobao. People are saying that with this privatisation, 100% owned by Temasek, will this actually imply a nationalisation of SMRT and public transportation service operators?

CHIA SONG HWEE: Not at all. No, I don't. We don't see that this is anywhere close to nationalisation. SMRT will still be run as a corporation. It's just that it is 100% owned by us and like I pointed out, we have many companies that we own 100%. Examples that I already quoted to you.

QUEK LEE KIANG (LIANHE ZAOBAO): I have one more question. When did Temasek first moot the idea of taking over SMRT?

CHIA SONG HWEE: Over the weekend, actually, when we saw the announcement of NRFF. Let me take a step back, sorry. As a shareholder, majority shareholder of SMRT we obviously follow the

news of NRFF. We have studied such similar models in various other jurisdiction because we need to understand if it does pay out, how is it going to impact the company that we own a substantial stake. So we built models and scenarios around what could be the possible outcomes and when the Framework was announced, Juliet's team was working quite frantically to understand what it means and we met on that very same night and we came to a conclusion by Saturday morning that it makes sense for us to initiate this conversation with the management about privatisation. So it was worked on a very compressed time but because we have been a long-time shareholder of the company, we understand how such framework operates in other jurisdiction, it's quite easy for us then to narrow down to a view, and then we decided to approach the company on Saturday.

JULIET TEO: I would just like to clarify, I think we accept the fact that NRFF is a necessary step for the company. So the key thing here is even for us as a major shareholder, this is one regulatory risk that is now announced and we can then look at how we should be thinking about the company under this new transition. So I think this is one regulatory risk that, as a major shareholder we are concerned with and now that it's been announced, and I think we accept the fact that NRFF is actually good because it actually allows LTA, or the Government, to take full control of all the infrastructure and be able to better plan the renewal, maintenance and so on and so forth. So this is just clearly, as with all other shareholders we have been waiting for this day to come and now that it's finally here we can then, with the terms available, we can then evaluate it on the basis of what the company needs to do going forward. So I

think the consideration's really from that perspective.

RICHARD LEOW (PHILIP CAPITAL): Richard Leow from Philip Capital. My question is directed to Mr Chia. You mentioned that you have some scenario analysis on this investment. Can you share with us what would be the circumstances where this investment exceeds your expectations and what circumstances would this investment under-perform your expectations?

JULIET TEO: Maybe I should clarify that. When Song Hwee talked about the various scenarios, that's really more in relation to the possible models, what the possible framework under NRFF might look like. So NRFF is not new because the Government announced this in 2008. So it's just taken a long time for the company to be negotiating with LTA to come to the point we are today. And as Song Hwee says, we've been following what - based on public announcements and all, we've been following to see what these terms could look like. I would say frankly there aren't really exact models, there are no exact models out there. I think we've studied all the transportation models in UK, in Australia, in Asia, none of that actually has similar kinds of models so we don't really know what it could look like. We don't even know what the model is for Downtown Line that's operated by SBST. We don't even know the terms there. So we could only look at what are the possibilities, and determine what that might look like. And it's only with the announcement where we could then figure out what it is and I guess, you know, as Desmond has shared last Friday, it seems like there is a cap and collar where there's a cap on EBIT margins in the top end and there's a collar at 3.5% before any sharing

happens. So on the basis of that, it seems to have some implications. I guess we can't really say whether there's an upside *per se* but it is one where we feel it's important for us to look at privatising the company now to allow the company to concentrate on focussing on what it does best, in terms of providing rail reliability and service quality. So unfortunately, you know, there's no upside, downside from a returns perspective, if that's what you're asking.

RICHARD LEOW (PHILIP CAPITAL): I mean due to the punitive nature of this collar, how do you view this investment in the long run and where will it go and I mean, how will it ever exceed any sane expectations?

CHIA SONG HWEE: Well, there's a range of outcomes, right? I think in the initial phase of transition with the investments that are required, with the additional engineering and manpower resources that will be required, there could be a little bit more near-term pressure on the bottom line. But we, as you have heard what Desmond has articulated, there are plans to improve, there are plans to improve service quality, there's plans to improve productivity so there is scenario where we can perform at the upper end of the EBIT. So it's a range of outcomes. We believe that given time and focus hopefully the company can perform at the upper end of the range.

JULIET TEO: It's a question all shareholders should be asking - under that framework, what does it really mean? It does, like Desmond has shared earlier on as well, there are risks involved, which could be out of control of the company, but it also means that the company

needs to work really hard to try and deliver decent - from the shareholders' perspective - a decent return. We see this as a long-term situation here where we need - the company needs time to actually work this out.

CHIA SONG HWEE: I think the key focus of this whole initiative is to be able to let the company focus without being worried as a listed company. As you know there's a lot of requirements being a listed entity. This will hopefully provide the environment that the company can focus and provide an environment where all the parties concerned can work collaboratively together. But there's no guarantee. There's risk involved here.

RUMI HARDASMALANI (TODAY): I'm Rumi from TODAY, Mediacorp. Background challenges that you mentioned is there a restructuring plan for the company and will there be an impact on the current manpower? Do you see that reducing?

DESMOND KUEK: Our current restructuring plans will continue. We have already decided internally that it is necessary for us to strengthen the differentiation between the public transport side of the business, which includes our rail and bus businesses. From the other end of the business lines which deal with the commercial business, the roads, taxis and private hire vehicles, as well as what we have already noted as our venture into engineering as part of the whole value chain as well as SMRT's support services. So all of these business growth ideas will continue post the privatisation should it succeed. So there will be no change there. As for impact on the work force, there will be no impact on our work force

because we intend to continue with the current emphasis both on strengthening our operational performance and heightening our standards of reliability as well as to pursue the avenues of business growth which you would have heard me talk about in terms of strengthening our number 1, engineering capability, the company. Number 2, to expand our operational footprint in both road and rail, operational and maintenance services. And thirdly, in extending our reach for commercial, our network and those business plans and objectives continue and the manpower that we have in support of both of these thrusts in terms of operational performance as well as sustaining business growth continue to be most important.

CHIA SONG HWEE: May I add to this, Temasek is an active investor but we're not an operator. We fully support the management and the board to go through their plans. We have no intention of altering that. All that we wanted to do is to provide an environment through the privatisation so that they can focus on the task at hand.

MODERATOR: Let's move onto the conference line before we come back to the room again. Operator, can you open the lines for Q&A?

OPERATOR: Your first question comes from the line of Christopher Tan from the Straits Times. Please ask your question.

CHRISTOPHER TAN (STRAITS TIMES): Hello. I just want to have an idea of what is the cost savings that will come out of this whole shift to privatise?

DESMOND KUEK: What do you mean by cost savings? You mean in terms of the regulatory costs we save from being delisted, is that your question?

CHRISTOPHER TAN (STRAITS TIMES): Yes, regulatory as well as others.

DESMOND KUEK: It's just simply the listing costs. I don't think we've thought about it at this particular point in time. It's not a very significant amount.

CHIA SONG HWEE: I guess other than the dollar and cents, it's management time and focus. I think that's even more valuable.

OPERATOR: Your second question comes from the line of Low Horng Han from CLSA. Please ask your question.

LOW HORNG HAN (CLSA): Hi, good evening. My question is with regards to the investment rationale, Mr Chia has said that Temasek is not an operator, at the same time, margin from NRFF is not attractive I'm just struggling to understand your rationale. Temasek is clearly not an operator. If Temasek wants to buy SMRT, it could have been done three years ago, so why now? And clearly the terms are not attractive.

CHIA SONG HWEE: Actually we have difficulty hearing you because you were breaking up. Unless someone here could... I got a little bit of it. Maybe let me try and then you tell me if I'm answering your question or not.

KOH YONG GUAN: Maybe I paraphrase for you? The question is - there are downside risks and challenges under NRFF and why are you doing this at this time?

LOW HORNG HAN (CLSA): Yes, that's right.

CHIA SONG HWEE: I guess with the announcement of NRFF, it provided us with clearer view of what the future could look like. Without the announcement of NRFF, which have been talked about for a while now, is really difficult for investors or shareholders to form a view of the future. Frankly speaking, with NRFF you kind of narrow down the scope and possibility of the financial outcome, in fact you can quantify it, and the company has done so, that allow us to look at it. So yes, it's not without risk and the offer that we have put on the table reflect our view of the risk and reward and we believe it's such a fair price for the minority shareholder and we hope that the minority shareholders will see the same and support the Scheme of Arrangement.

JULIET TEO: I guess I will also add that from the company's perspective, I think all shareholders should take this into consideration too, that the announcement of NRFF actually removes the regulatory uncertainty for the company. So I think all shareholders should consider this too apart from the company themselves.

MODERATOR: I think there's no more questions on the line. From the room again, Weilun.

SOON WEILUN (BUSINESS TIMES): Two more questions. One question is why is it through a Scheme of Arrangement, rather than a General Offer, by Temasek, and secondly, what are the regulatory risks, if NRFF has helped mitigate some of that? And SMRT has raised some issues, like impact of ridership. So how does Temasek view those risks?

KOH YONG GUAN: Your first question has been answered.

JULIET TEO: The first question has been answered so I don't think I need to repeat myself. I forget what your second question is, sorry!

SOON WEILUN (BUSINESS TIMES): How do you view the other risks of NRFF?

JULIET TEO: Right, I think it goes to the point I mentioned earlier on. There is no other model around the world that is similar to what NRFF actually provides. The revenue risk remains. I guess the ridership risk also remains, but it's therefore because of that, the uncertainty it brings, and no model in the world can tell us exactly what will actually happen. It is therefore more prudent for us to think about allowing the company to work through some of these issues as a private company. We're taking a much longer term view, so interim volatilities and all, and I think it's something that we're prepared to stick up with.

JOYCE KOH (BLOOMBERG): Joyce from Bloomberg. If Temasek manages to privatise SMRT what kind of resources will you guys put to the company to enable it to be a better operator and number 2, what's

your view of the current management? Do you think you would retain the current management?

CHIA SONG HWEE: As I have said earlier, we are an investor, we are not an operator so we totally rely on the management team to carry out their job and we expect the board to continue to provide the oversight. What we can do as the shareholder is to provide the environment that we want to create as a private entity to allow them to focus. Where we can have support and dialogue with the company to help them, we would definitely - if it's within our means and capability - we would do. Just as we would do with any of our portfolio companies. Beyond this point we do not have anything to add to what the company already articulated. We believe that those things that they're working on and have shared are the right focus and we just want to provide them with the environment for them to do so. As I said earlier, without the management team we would not be able to do this, because we are not operator. We have no people to parachute in.

MODERATOR: Any other questions? There's one.

MAYUKO TANI (NIKKEI): You've talked a bit about management being able to focus on running the company, operating by being a privately held company, by being a publicly listed company, what are the things that you really have to focus on, other than the operation? What can you get away with by being a private company? Short-term profits at quarterly announcement or other things in that sense? Will Temasek allow the company to make losses for some time?

CHIA SONG HWEE: Maybe I can get Desmond to respond?

DESMOND KUEK: I think there are obviously a number of technical differences but the key difference that I would find between being publicly listed and being privatised is the ability or the capacity to think a little bit longer term without having to worry about the short-term pressures of being a public listed company. It doesn't change the way - it doesn't change the way in which we will govern. It doesn't change the way we think about the integrity of processes in terms of corporate management, but it certainly allows us to be more focused on ensuring mission success, if you like, in delivering a high level of operational reliability and service to our commuters, which is the priority over the next few years.

QUEK LEE KIANG (LIANHE ZAOBAO): Lee Kiang from Zaobao. A second attempt, to explain how did the price come about - S\$1.68, is there a way to explain it such that the man on the street can understand?

TOH TECK MENG (LIANHE ZAOBAO): Is there a way to also explain, since the EBIT, there is no certainty that it can be guaranteed to hit 5% and SMRT in previous years has actually earned more than that – why are you saying that with the new NRFF, you may not hit the 5% and that it has quite a lot of downsides?

DESMOND KUEK: Maybe I will try to explain this from a different perspective from the earlier explanations that you have heard. Without so much looking at the offer price for now, but there is a

lot of questions that you are asking about what's the projection that you're thinking about in terms of, what's the upside for SMRT? I think there can be any number of things that different analysts may say about the future for SMRT and when we think about the future as a group, as opposed to only the trains business, there are any number of scenarios that you can think of where there are upsides to the future potential of the company. But these are uncertain and as with all business development and all commercial endeavours, there will be risks and unrealised potential as we move forward into the long term. But what we are clear about in the short term is that the short-term imperatives for SMRT really lie in ensuring a high level of operational performance and reliability as our network has reached a stage where there is a considerable amount of resources that's needed to go into the expansion of the network and to resolve, as part of the life cycle, the ageing system. And this is part of that multi-year program that we have already embarked on but we see that there is very likely a need for future investments to be made to continue to raise the bar in operational service and reliability and we think that this is going to stress and challenge the company in the short to medium term. This is how I would look at the future versus the short-term and medium-term challenges that we face as a company.

CHIA SONG HWEE: Maybe I will try to answer your question again. We have analysts here, right, you run a model, you do your DCF, you do your multiples which we try to lay out in the appendix as well. But there's no one single measurement or matrix that you can use to end up with a price, right. At the end of the day we have to believe that as a commercially driven company we must consider

the commercial aspect, we are obviously taking much longer term view than the average investor would. Also what we believe we will be able to get the shareholders' support. We can be mathematically correct but if we cannot provide a price where we believe that the minority shareholder will support then we will not be able to succeed. There's no guarantee that what we are saying here will succeed because at the end of the day the minority shareholder has to decide but based on our best judgment with a lot of robust discussion with the company, that's our fair price that we put on the table.

MODERATOR: Let's take two more questions.

LINETTE LIM (CNA): Linette from ChannelNews Asia, I want to ask a question about will Temasek allow losses? I guess that what I'm trying to ask is whether the move if it goes through will change how Temasek evaluates SMRT's performance – in terms of KPI and in terms of hurdle rates? How does that change?

CHIA SONG HWEE: I think every company has cycles and challenges and all that. If the level of investments resulting is required to provide safe and reliable rail service and if the company go through a difficult period, even including a period where losses may have to be incurred, but for the long-term sustainability of the company, yes. And by the way, this is not an exception for SRMT. In our portfolio we have, from time to time, companies that have to go through that transition, either as a public or private company. I wouldn't say that this is something unique here.

JULIET TEO: Just to add to that, you know that the company is already undergoing several multi-year programs to upgrade the system in terms of ageing network and all that. So I think even going forward to allow the company to - in trying to deliver higher quality standards as agreed with LTA as part of the transition to New Rail Financing Framework, you would expect that there would be additional investments that could be required and I think those investments, correct me if I'm wrong, Desmond, but I think it not only includes infrastructure type of investments but also investments in people, investments in engineering, operation excellence and so on. So those investments would be necessary to allow the company to sharpen its focus on its core in terms of service quality and rail reliability.

DESMOND KUEK: Juliet is absolutely right, in that we will have to put a lot of emphasis on developing our people, not just in terms of the quantity that's needed to be able to meet our maintenance performance standards but deepening the quality and competencies of the staff that we have and the new staff that we will bring in. And all of this together with the technology enhancements that we will be bringing into the company as well as the strengthening up of processes as we align ourselves to an ISO 55001 standard, will require significant investment in new resources to be able to achieve all of these much higher order of best practices in the company.

MARISSA LEE (STRAITS TIMES): I'm wondering, as a shareholder, how many years does SMRT needs to reach the target of returns that you think you can achieve?

CHIA SONG HWEE: This is very difficult to judge at this point in time. As you can imagine, the company will go through from CRFF framework to NRFF framework, with a lot of upgrading investments as required, it's a bit hard to quantify the timing at this stage.

MARISSA LEE (STRAITS TIMES): So just a 5% return for a state investment fund – that's not a very high rate of return right? So shouldn't you aim for something much higher than that?

JULIET TEO: That's from a short-term perspective. Again, it all depends on - it depends on the company to actually work through a lot of these issues and a longer term basis, it's your call is as good as mine, what would that be in the future. But for us to be able to take a long-term view to this I think it's a very important - from the company standpoint it's important to have a shareholder who can take a long-term view to working this through with them.

CHIA SONG HWEE: Of course, for Temasek to undertake this privatisation, we have no intention of losing money. But I'm not saying that, as in all investment, there's no risk. In our portfolio, as you know, there are investments that makes money and there are investments that we don't.

MODERATOR: Okay, there's no more questions, we've come to the end of our briefing. Thank you for coming.

KOH YONG GUAN: I could just say to you that in NRFF going forward, it's very important, it's an important framework and we will put it to

shareholders at an EGM and separately also the Scheme that is before the shareholders which will also be put to the shareholders in due course and we expect that, we hope to complete by September, October. So thank you, thank you very much for coming.